Some, Not All, Insurance Companies Tackling Climate Change

August 24, 2006 - Boston - Dozens of new insurance activities, such as 'green' building credits and incentives for investing in renewable energy, are emerging to tackle the causes of climate change and rising weather-related losses in the U.S. and globally, according to a new report issued this week by the Boston-based Ceres investor coalition. But the report also states that more insurance companies need to be offering similar services to minimize losses and make the most of business opportunities related to climate change.

"Climate change poses unprecedented risks to the insurance industry, but it also creates vast opportunities for new products and services to help consumers and businesses reduce their losses, while also reducing the pollution causing global warming," says Ceres president Mindy Lubber. "We've seen encouraging progress from big-name insurers and brokers since last year's devastating hurricanes, but many more creative services will be needed as we confront what is perhaps the biggest threat in the industry's history."

The report comes on the heels of devastating back-to-back hurricane seasons in the U.S. that caused a record $75 billion in insured losses during 2004 and 2005, including $45 billion from Hurricane Katrina alone. While no individual weather event can be attributed to global warming, a growing body of new scientific data show that rising temperatures are likely increasing the intensity of hurricanes, floods, drought, wildfires and other extreme weather events in the U.S. and globally.

The report, "From Risk to Opportunity: How Insurers Can Proactively and Profitably Manage Climate Change," highlights the insurance industry's unique, powerful role historically in helping the country grapple and manage emerging risks. Just as the industry asserted its leadership to minimize risks from building fires and earthquakes, it is well positioned today to further society's understanding of global warming and advance forward-thinking solutions to minimize its impacts. (Ceres claims the insurance industry as the world's largest, with $3.4 trillion in yearly premium revenue.)

The report, written by two insurance industry experts, identifies 190 innovative products and services available or in the pipeline from dozens of insurance providers in 16 countries. Many provide win-win benefits, by reducing financial losses and greenhouse gas emissions. More than half of the activities come from U.S. companies, covering climate change solutions including energy efficiency, green building design, carbon emissions trading and sustainable driving practices. Among the recent offerings that show promise for customers and insurers:

* Firemen's Fund Insurance is launching a first-of-its-kind 'green' coverage, including rate credits and other incentives, for commercial building owners who re-build damaged properties using green and LEED-certified (Leadership in Energy and Environmental Design) building practices. California-based Firemen's Fund will begin seeking state regulatory approvals this month so that the products can be offered in states around the country this fall.

* Marsh, the world's largest insurance broker, and AIG, the world's largest insurer, have launched carbon emissions credit guarantees and other new renewable energy-related insurance products that are allowing more companies to participate in carbon offset projects and growing carbon emissions trading markets. The carbon trading market in the European Union alone is expected to hit $30 billion by the end of 2006.

* Insurer-initiated hurricane loss prevention methods used at nearly 500 commercial locations incurred eight times less damage from Hurricane Katrina than properties that did not make the engineering improvements, avoiding $500 million in property damage. Insurer FM Global says the $500 million in savings came after customer investments of only $2.5 million, and helped make the company profitable in a year when few insurers were.

* A Japanese insurer, Tokio Marine & Nichido Life, has reforested more than 7,500 acres of mangroves in Indonesia, Thailand and several other countries to minimize losses from rising cyclone-related risks.

Dr. Evan Mills, the report's lead author and a scientist at the U.S. Department of Energy's Lawrence Berkeley National Laboratory, says the new insurance offerings are an impressive beginning considering the near-universal lack of interest in climate change among U.S. insurers as recently as two years ago.

"The insurance sector is poised to make a major contribution to long-term national and international efforts to curb the growth of greenhouse gas emissions, while helping to fortify society against the near term impacts of climate change," Mills said. "Last year's hurricanes were a real wake up call for the industry and many U.S. insurers are creating programs to help businesses minimize future losses. Many of these strategies represent new profit centers for insurers, rather than simply symbolic and charitable activities."

The report will get close consideration from the National Association of Insurance Commissioners (NAIC), which formed an executive level task force on the climate change issue last December.

"This summer's devastating wildfires in the West are only the latest example of why insurance regulators are concerned about climate change and its far-reaching consequences for the insurance industry," said Washington Insurance Commissioner Mike Kreidler, who is co-chairing the NAIC climate change task force. "As climate change increases the likelihood of weather-related losses, we must seek new ideas and solutions so insurers can minimize these impacts for themselves and consumers, while also addressing the root causes of global warming itself.

"This report is timely and important because it provides the most comprehensive assessment yet of insurance products available for proactively meeting climate change challenges head-on," added Nebraska Insurance Director Tim Wagner, who also co-chairs the NAIC task force. "Many of the activities identified have enormous potential to reduce losses and greenhouse gas emissions at the same time."

The new report also outlines the nation's growing insurance availability crisis that has hundreds of thousands of coastal homeowners feeling the combined sting of premium shocks and coverage restrictions after last year's hurricanes. In Louisiana and Florida alone, more than 600,000 homeowners' property policies have been cancelled or not renewed in the past year. In Massachusetts and New York, private insurers have cancelled coverage for more than 80,000 coastal homeowners the past two years, even though it has been decades since the last major hurricane hit the region.

Among the impacts of the pullouts is a stronger reliance on governments as insurers of last resort. As more private insurers refuse to take on new policies or renew existing ones, mandated state-run insurance 'pools' are being forced to take on more customers and more financial exposure.

Florida's state insurance pool has swelled to about 1.5 million policyholders and it recently needed a $715 million bailout from the Florida legislature to cover its losses. Mississippi's Wind Pool, which insures coastal property owners, suffered a $745 million loss from Hurricane Katrina, $100 million of which was paid back with a federal block grant.

Commercial businesses are also feeling impacts from coverage restrictions. With $10 billion in insured losses - including the destruction of 116 oil platforms, and 56 more severely damaged by 2004-2005 hurricanes - offshore oil producers in the Gulf of Mexico have seen insurance price increases of up to 500%.

Source: Ceres

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